Congress Plucks PACs as Fed Acts on Bank Powers

By KEVIN METZ

Political action committees representing banks and insurance companies have poured millions into congressional campaigns this year, but Congress's stalling on key banking issues has prompted the Federal Reserve Board to begin deregulation on its own.

In the past four years, banking and insurance PACs have spent more than $18 million combined on hundreds of congressional races, but the only significant deregulation bill this session died before reaching the floor of the House after being approved by the Senate 94-2.

Which PACs Gave the Most

ABA dominates industry's political contributions

	1988	1990*
American Bankers Association	$1,345,083	$754,709
Barnett Banks of Florida	375,700	186,750
Citicorp	401,223	172,513
J.P. Morgan and Co.	445,900	133,450
Independent Bankers Association	177,290	67,575
NCNB	131,560	53,500
BankAmerica	111,573	49,577
First Chicago	119,483	41,100
Bankers Trust	170,450	41,000
Manufacturers Hanover	95,875	40,500
Chemical Bank	190,640	34,350
Chase Manhattan	154,320	32,072
Suntrust Banks	124,940	30,100

*Top banking PACs by contribution during current election cycle (Dec. 1989 through June 1990). Total for previous cycle ending Dec. 1988.

Source: Federal Election Commission records and report published by Center for Responsive Politics

A Money-Making Scam?

"There's a sense that this has become a money-making scam for the Congress and the substantive issues never get resolved," said Michael Lovendusky, a lawyer for the American Insurance Association, which opposes bank deregulation.

"In a way, it's become counterproductive because, year after year, Congress makes motions as if they're going to make some progress and then it goes away – and gives Congress another money-making opportunity," he said.

Counterproductive or not, the campaign money continues to flow.

By July, the banking and insurance industries had distributed $4 million to Democrats and Republicans alike but mainly to incumbents.

At stake is banks' hotly opposed desire to expand into insurance and securities underwriting, real estate, and other areas. All the affected industries oppose banks' intrusion into their markets, but banks argue that restrictions on their powers make them uncompetitive in the global economy.

Generous Donations

Banking PACs, led by the American Bankers Association, have already given more than $1.7 million for 282 House and Senate races in 1990, according to the most recent Federal Election Commission records.

When candidates file their next disclosure reports with the FEC later this month, the totals are expected to be much higher.

"Money buys power, and money buys access, and there's simply no more powerful lobby in the United States than the ABA," said onetime bank president Edward Mrkvicka Jr., who is now a banking consultant.

Meanwhile, insurance industry PACs, led by the National Association of Life Underwriters, have already contributed more than $2.2 million to 228 candidates in the 1990 elections, records showed.

Knowing Your Place

"We feel the law that was passed during the Depression was designed to protect individuals, and we feel banks should continue to concentrate on banking and insurance should concentrate on insurance," said Jay Morris, spokesman for the insurance group.

Most people in the insurance industry agree that Congress and the Federal Reserve Board should leave intact the 1933 Glass-Steagall Act, which forbids banks to enter many financial fields.

While much of the PAC money is directed at key members of the House and Senate banking and commerce committees, many incumbents share in the windfall. Some challengers have also received contributions, as PACs try to hedge their bets. Republicans, as befits their minority status, got about 42% of bank PACs' contributions and 45% of those from insurance PACs.

During the 1988 congressional campaigns, Senate Banking Committee members alone got $855,106 from commercial-bank PACs, $701,235 from insurance PACs, and $483,912 from securities-industry PACs, according to a report by the Center for Responsive Politics.

House Banking Committee members got $1,591,288 from bank PACs, $631,990 from insurance PACs, and $462,125 from securities PACs, the report said.

Sen. Donald W. Riegle, D-Mich., then chairman of the securities subcommittee and now chairman of the Senate Banking Committee, led all congressional candidates, reaping almost $144,000 from commercial banks and another $129,000 from insurance PACs in his 1988 reelection race.

"There are better ways to do this, [but] this is the way it's done now," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America. PACs are a necessity, he said, because "you've got to be a player."

Fed Acts on Own

While Congress continues to reap campaign contributions sown by financial industry warfare, the Federal Reserve Board has moved on its own toward deregulation.

Most recently, the Fed moved to allow the banking firm of J.P. Morgan & Co. to begin limited equity underwriting, reigniting the debate over banking reform

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Mr. Metz writes for the *Medill News Service.*

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at a time when the industry itself seems to be in peril.

"When you have an industry, which for the first time is in danger of collapsing, why would they expand into new markets?" asked Mr. Mrkvicka, the banking consultant. "Bankers of today are no more astute at what they do than they were in the 1920s. This is not the time to expand."

"It's not quite as bad as the S&Ls," he said, "but in a very short time and unless something's done, it could make the S&L crisis look like a minor inconvenience."

A Fragile Industry

Since 1985, 844 commercial banks have failed, almost five times as many as in the first half of the 1980s, according to the Federal Deposit Insurance Corp.

Comparisons to the savings and loan crisis remain premature, according to most industry experts, but some contend that expansion could seriously jeopardize an already fragile industry. Because of this, some have asked whether banks should be trying to extend their capital into riskier financial arenas.

"The money-center banks are suffering directly because of their venturing into nontraditional areas," said Mr. Lovendusky of the American Insurance Association. "Regional banks tend to be in a much stronger position, and we would argue that those successful banks are successful because they don't venture into these nontraditional banking interests."

"Any modification of Glass-Steagall [must] include efficient, functioning regulations and firewalls to protect depositors."

Dennis Fitzgibbons
Congressional Aide

Mr. Guenther disagreed, arguing that Fed Chairman Alan Greenspan's slow, cautious approach to expansion was in the best interest of well-capitalized banks.

"I don't consider it dangerous at all because the Fed has been moving very carefully," he said. "We think this type of controlled expansion is very wise. We would be 100% supportive of that Greenspan approach. It would be silly to allow undercapitalized banks into this riskier area."

The Fed's move to allow some banks limited corporate debt and equity underwriting powers employed a loophole in Glass-Steagall that lets banks enter otherwise prohibited areas as long as they are not "principally engaged" in them.

"It opened a window; it doesn't open a door," Mr. Guenther said of the loophole.

Banks must still apply to the Fed for permission to trade in securities. Still, the Fed's action could appear – by sidestepping congressional procrastination on banking deregulation – to conflict with Congress's constitutional power to regulate commerce.

Dennis Fitzgibbons, a spokesman for Rep. John D. Dingell D-Mich., said his boss has been critical of previous Fed initiatives.

"This is rightfully the jurisdiction of the Congress," Mr. Fitzgibbons said. Rep. Dingell, chairman of the House Energy and Commerce Committee, fought the House Banking Committee for jurisdiction over a 1988 bill, which did not reach a House vote.

"Any modification of Glass-Steagall [must] include efficient, functioning regulations and firewalls to protect depositors," Mr. Fitzgibbons said.

Unfair Advantages

Larger capital reserves, access to consumer credit information, and the temptation to coerce bank customers into buying expanded banking services are among the unfair advantages Mr. Morris and other insurance industry spokesmen feel commercial banks would bring to the market.

"To allow banks into the business of insurance would give them an unfair advantage," Mr. Lovendusky said. "It would allow them to risk their bank customers' capital on risky insurance ventures."

However, the banking industry counters that banks "deserve – either by congressional action or regulatory action – increased ability to offer insurance products and securities products," according to Mr. Guenther.

In fact, he said, Fed action is preferable because, if Congress overturned Glass-Steagall, that "would open the door for banks to buy investment companies and investment companies to buy banks, and we feel this leads to unwise financial concentration."

While the debate over deregulation continues, Congress has no specific pending legislation, and the Fed appears to be content to chip away at the 57-year-old law. □

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